

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 SAM-01 SAI-01 COME-00 EB-11 LAB-06 SIL-01

TRSE-00 OMB-01 DRC-01 /122 W
----- 045918

R 061009Z JUN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1006

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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E.O. 11652: N/A

TAGS: ELAB, UK, PINT

SUBJECT: FRAGILITY OF TUC-GOVERNMENT DETENTE: WAITING
FOR THE DELUGE

REF: (A) LONDON 6560; (B) LONDON 6199

1. BEGIN SUMMARY: THE SPIRIT OF DETENTE BETWEEN THE LABOR
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GOVERNMENT AND THE TRADE UNIONS CONTINUES TO DEMONSTRATE

ITS UNDERLYING FRAGILITY. AT LEAST ONE KEY GOVERNMENT MINISTER HAS ALREADY CITED WAGES - RATHER THAN PRICES - AS THE KEY TO CONTROLLING INFLATION, THUS TURNING ON ITS HEAD THE PRE-ELECTION TUC-LABOR PARTY ARGUMENTS. THERE IS INCREASING SPECULATION THAT THE GOVERNMENT MAY BE UNABLE TO LET STATUTORY INCOMES CONTROLS DIE A NORMAL DEATH IN NOVEMBER, THAT IT MAY EVEN HAVE TO CONSIDER A FREEZE, TO DEAL WITH THE PROBLEM OF INFLATION. BUT IF THE GOVERNMENT WERE TO ALTER ITS EARLIER DECLARED COURSE, IT IS GENERALLY AGREED THAT IT COULD ONLY DO SO AFTER AN ELECTION. THE TUC LEADERSHIP, ALSO WITH AN EYE ON A POSSIBLE FALL ELECTION, IS EXPECTED TO PROCLAIM THE SANCTITY OF THE SOCIAL CONTRACT AS A MAJOR THEME AT ITS SEPTEMBER CONGRESS, EVEN WHEN IT WILL BY THEN BE CLEAR THAT IT NO LONGER REMAINS A MEANINGFUL TREATY. END SUMMARY

2. EARLIER THIS WEEK, THE PRESS REPORTED A SPEECH BY DENIS HEALEY, CHANCELLOR OF THE EXCHEQUER, IN WHICH HE CITED WAGES AS THE KEY TO CONTROLLING INFLATION IN THE COMING YEAR, ADDING THAT THE GOVERNMENT HAD DONE ALL IT POSSIBLY COULD TO HOLD BACK PRICES AND PROFITS. HE CALLED FOR WAGE RESTRAINT AND FOR UNIONS TO TAKE INTO ACCOUNT THRESHOLD PAYMENTS (COST OF LIVING AGREEMENTS, THUS FAR COVERING ABOUT 8,000,000 WORKERS, REF A) WHEN MAKING THEIR NEXT SETTLEMENT.

3. OBVIOUSLY RESPONDING TO THE CHANCELLOR'S STATEMENT, TUC GENERAL SECRETARY LEN MURRAY, SPEAKING AT A TRADE UNION CONFERENCE ON JUNE 4 IN BLACKPOOL, SAID, "SOME POLITICIANS AND EMPLOYERS HAVE BEEN SAYING THAT WAGES ARE THE ROOT OF INFLATION. THEY ARE NOT." NONETHELESS, MURRAY AGREED WITH THE CHANCELLOR IN ESSENCE TO THE NEED FOR RESTRAINT AND CALLED UPON THE TRADE UNION MOVEMENT TO SET OUT A UNIFIED PROGRAM OF PRIORITIES WHEN CONTROLS ARE LIFTED SOMETIME THIS AUTUMN, ADDING HIS OWN WARNING THAT PRIORITIES MIGHT BE IMPOSED FROM OUTSIDE.

4. HOWEVER, IT IS VERY DOUBTFUL THAT RESTRAINT WILL BE POSSIBLE. THE DEPARTMENT OF EMPLOYMENT, (ACCORDING TO LIMITED OFFICIAL USE

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CONRAD HERON, ITS PERMANENT SECRETARY FOR EMPLOYMENT), EXPECTS AVERAGE EARNINGS FOR THE YEAR TO RISE 20 PERCENT BY THE FALL. THIS INCREASE, WHICH IS CLOSE TO THE GENERALLY PREDICTED INFLATION RATE AND WHICH CONTRIBUTED TO THE SECRETARY'S GRIM ASSESSMENT (REF B), WILL REFLECT AMONG OTHER THINGS THE MANY THRESHOLD AGREEMENTS (ESCALATOR CLAUSES) ALREADY SIGNED OR BEING SOUGHT UNDER PROVISIONS OF STAGE THREE INCOMES POLICY.

5. ONE OF THE MAJOR CONCERNS OF GOVERNMENT OFFICIALS, APART FROM THESE AUTOMATIC RISES, IS THAT A NUMBER OF UNIONS (MANY OF WHICH ARE IN THE PUBLIC SECTOR AND ALREADY ENGAGED IN SOME FORM OF INDUSTRIAL ACTION) ARE LAYING CLAIM TO LATE SUMMER WAGE INCREASES PAYABLE WHEN STAGE THREE TERMINATES. SOME EMPLOYERS, INCLUDING ONE IN THE CHEMICAL INDUSTRY, HAVE ALREADY COMMITTED THEMSELVES TO POST-STAGE THREE INCREASES OF UP TO 20 PERCENT. THE SECRETARY OF STATE FOR EMPLOYMENT MICHAEL FOOT, WHO MAY NOT BE READING FROM THE SAME SCRIPT AS THE CHANCELO OF THE EXCHEQUER, HAS ALREADY SUGGESTED TO ANOTHER UNION THAT IT MAKE A HIGHER POST-STAGE THREE DEMAND, AND HE HAS AGREED TO WAGE INQUIRIES INTO TWO CRITICAL, AND

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USIA-15 SAM-01 SAJ-01 COME-00 EB-11 LAB-06 SIL-01

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----- 046109

R 061009Z JUN 74

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LARGELY JUSTIFIED, AREAS OF DISCONTENT: TEACHERS AND NURSES (ONE UNION OF NURSES HAS IN FACT STAGED SLOW-DOWNS, LIGHTNING STRIKES AND TAKEN OTHER FORMS OF INDUSTRIAL ACTION AROUND THE COUNTRY BECAUSE IT WANTS ACTION NOW).

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6. EVEN THOUGH THERE IS A POSSIBILITY THAT COMMODITY PRICES MAY ABATE SOMEWHAT, FEW OBSERVERS HERE ARE VERY SANGUINE ABOUT ANY SIGNIFICANT DE-ESCALATION IN INFLATION. A CBI OFFICIAL TOLD US THAT THE CBI EXPECTS MASSIVE UPWARD WAGE CLAIMS IN THE 74-75 ROUND IN A WIDE RANGE OF PUBLIC AND PRIVATE INDUSTRIES, IN WHICH SHE INCLUDED RAILS AND MINES. SHE INDICATED THAT THE CBI "AS AN ORGANIZATION" WILL SEEK TO HAVE THE GOVERNMENT RETAIN STATUTORY INCOMES CONTROL, BUT SHE ACKNOWLEDGED THAT A NUMBER OF EMPLOYERS, RESTIVE ABOUT LABOR SHORTAGES, ARE PREPARED TO ACCEPT UPWARD TO 20 PERCENT WAGE RISES.

7. WHAT, THEN, ARE THE POLITICAL IMPLICATIONS? AT THIS JUNCTURE, NEITHER THE GOVERNMENT, NOR THE UNIONS, NOR INDUSTRY, BELIEVE THAT DRASTIC SHIFTS IN CURRENT GOVERNMENT POLICY IN THIS FIELD CAN OCCUR PRIOR TO AN ELECTION, ALTHOUGH AS ONE TRADE UNIONIST PUT IT, THERE WILL BE MORE "WARNING SHOTS (SUCH AS HEALEY'S) ACROSS UNION BOWS." IN ESSENCE, A FORM OF THEATER, MAY BE CARRIED OUT, WITH THE GOVERNMENT AND TUC STALWARTS SUCH AS MURRAY OR JACK JONES CALLING FOR RESTRAINT, BUT WITH TUC AFFILIATES - ENGAGED IN THE GRIM REALITY OF PUSHING WAGES AFTER PRICES - DOING THEIR OWN THING DURING NEGOTIATIONS. FOR ITS PART, THE GOVERNMENT, VIEWING ITS OWN SET OF REALITIES, WILL THEN HAVE TO CONSIDER ITS POST-ELECTION POSITION - IF IN FACT THERE IS ONE THIS FALL - ON KEEPING CONTROLS, OR INSTITUTING A WAGE FREEZE UNTIL IT CAN CHART A NEW COURSE. THE BETTING ODDS ARE INCREASING THAT ECONOMIC NECESSITY WILL FORCE IT DRASTICALLY TO SHIFT DIRECTION, THAT IS, BY RETAINING WAGE CONTROLS. WHAT IS STILL UNCERTAIN IS THE TIMING

AND THE EXTENT.

8. COMMENT: IT SHOULD BE NOTED, HOWEVER, THAT A TIGHTEN-
ING OF WAGE CONTROLS WOULD, OF COURSE, MAKE ANY ALLEVIA-
TION OF PRICE CONTROLS POLITICALLY IMPRACTICABLE. YET
WITH FALLING INVESTMENT PROJECTIONS, THE PRICE CONTROL
MECHANISM IS THE MAJOR POLICY AREA WHERE THE GOVERNMENT
HAS ROOM FOR MANUEVER ON CREATING INCENTIVES FOR INVEST-
MENT. THUS THE GOVERNMENT MAY FIND ITSELF IN A BOX THIS
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FALL NEEDING TO STIFFEN WAGE CONTROLS AND LOOSEN PRICE
CONTROLS AT ONE TIME.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LABOR RELATIONS, LABOR, INDUSTRIAL OUTLOOK REPORT, LABOR OBJECTIVES, COMMERCE & INDUSTRY, RETAIL PRICE INDEXES
Control Number: n/a
Copy: SINGLE
Draft Date: 06 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON07066
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740144-0080
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740669/aaaachvh.tel
Line Count: 242
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) LONDON 6560; (B) LONDON 6199
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 02 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 APR 2002 by izenbei0>; APPROVED <13 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRAGILITY OF TUC-GOVERNMENT DETENTE: WAITING FOR THE DELUGE
TAGS: ELAB, PINT, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005